GOVERNOR'S COMMITTEE

ON

GOVERNMENT SPENDING REFORM

FINAL REPORT

NOVEMBER 1996

TABLE OF CONTENTS

While this report is the consensus of the Commission and its subcommittees, the members of the Commission and subcommittee members are not, of course, unanimous in every recommendation contained in this report.

GOVERNOR RECONVENES THE FISHER COMMISSION

As part of the Governor's message to the Legislature outlining his review of appropriation bills passed by the second session of the Seventy-sixth General Assembly in May 1996, he called for the Governor's Committee on Government Spending Reform, more commonly known as the Fisher Commission, to be reconvened, stating:

> ... with respect to poor budgeting practices, I have been able to extract some of these items from the budget, but there are many that I could not correct by using the line item veto. I believe a longer-term strategy of fiscal accountability must be maintained. That is why I am asking the Fisher Commission to reconvene and look at what we can do to maintain the fiscal discipline that has been evident since the State spending reforms were put in place in 1992. I will ask for the commission's assistance in preventing budgeting practices that will lead to future fiscal troubles. The scope of its work will include making recommendations about a structure and process for prioritizing and making decisions about infrastructure investments, as well.

GOVERNOR'S COMMITTEE ON GOVERNMENT SPENDING REFORM

The 1996 Governor's Committee on Government Spending Reform is made up of 23 dedicated Iowans, many of them the same members who served Iowa so well in 1991 when the Governor first convened the Governor's Committee on Government Spending Reform. The Committee includes members from the public and private sectors, including large and small business leaders, labor and agriculture organizations, the State Treasurer, local government officials and legislators. The following table lists the Committee members' names and company/organization affiliation.

David Fisher, Chair
Onthank Company
Des Moines, Iowa

The Honorable Donna Hammit Barry
House of Representatives
Dunlap, Iowa

Lorna Burnside
Buena Vista County
Storm Lake, Iowa

Perry Chapin
South Central IA Fed of Labor, AFL-CIO
Des Moines, Iowa

Jim Cownie
New Heritage Associates
Des Moines, Iowa

Arlene Dayhoff
State Human Services Council
Cedar Rapids, Iowa

Fred Dohrmann
Winnebago Industries
Forest City, Iowa

Charles Edwards
Des Moines Register [ret.]
Des Moines, Iowa

The Honorable Michael Fitzgerald
Treasurer of State
Des Moines, Iowa

Marcia Hanson
Amerus Bank
Des Moines, Iowa

Jeanine Hettinga
Hettinga Equipment, Inc.
Clive, Iowa

The Honorable Emil Husak
State Senate
Toledo, Iowa

Robert Lester
MidAmerican Energy
Des Moines, Iowa

Lee Liu
I.E.S. Industries
Cedar Rapids, Iowa

Mike McCarville
Webster Co. Economic Development
Fort Dodge, Iowa

The Honorable Delores Mertz
House of Representatives
Ottosen, Iowa

Merlin Plagge
Iowa Farm Bureau
Sheffield, Iowa

Joan Poe
Standard Distributing Company
Waterloo, Iowa

The Honorable Don Redfern
State Senate
Cedar Falls, Iowa

Betty Snyder
Clinton, Iowa

Jim White
Deere & Company
Moline, Illinois

Ed Wiederstein
Iowa Farm Bureau
West Des Moines, Iowa

Charisse Yanney
Guarantee Roofing & Siding
Sioux City, Iowa

COMMISSION WORKPLAN AND TIMETABLE

The Commission reconvened on July 12, 1996, and then met monthly through October.

JULY 12	• Progress report on prior Commission recommendations • Accept charge for reconvened Commission • Approve subcommittee Chairs and their missions
AUGUST 20	• Testimony on best budgeting and infrastructure practices • Subcommittee progress reports - Budgeting Practices and Infrastructure
SEPTEMBER 26	• Review of draft recommendations of subcommittees
OCTOBER 17	• Review of final report draft
NOVEMBER 7	• Presentation of final report to Governor

Two subcommittees were created, one to review State government budgeting practices and technology funding, and one to look at the planning and decision making process for State government infrastructure needs.

SUBCOMMITTEE / MISSION	CHAIRS/CO-CHAIRS AFFILIATION
Budgeting Practices • To review, analyze, and make recommendations about budgeting practices, including biennial budgeting, that will promote a multi-year perspective in decision making. • To review, analyze, and make recommendations about technology funding, including funding sources, prioritization and decision making processes.	William Vernon The Vernon Company Newton, Iowa Gretchen Tegeler Department of Management State of Iowa
Infrastructure • To define infrastructure and identify the 'scope' of State assets. • To make specific recommendations on a methodology for identification and prioritization of infrastructure projects. • To make specific recommendations on a methodology for allocation of resources relative to infrastructure projects.	Edgar F. Hansell Nyemaster, Goode, McLaughlin, Voights, West, Hansell & O'Brien Law Firm Des Moines, Iowa Janet Phipps Department of General Services State of Iowa

BUDGETING PRACTICES SUBCOMMITTEE

William Vernon, Chair
The Vernon Company
Newton, Iowa

Gretchen Tegeler, Co-Chair
Department of Management
State of Iowa

Gerald Bair
Department of Revenue and Finance
State of Iowa

Becky Beach
Blue Cross / Blue Shield
Des Moines, Iowa

Don Byers
Maytag Corporation
Newton, Iowa

Fred Dohrmann
Winnebago Industries
Forest City, Iowa

Marcia Hanson
Amerus Bank
Des Moines, Iowa

William McCabe
Ernst and Young
Des Moines, Iowa

Steve Odem
City of New London
New London, Iowa

Joan Poe
Standard Distributing Company
Waterloo, Iowa

Doug True
University of Iowa
Iowa City, Iowa

Beverly Wharton
MidAmerican Energy
Sioux City, Iowa

Ed Wiederstein
Iowa Farm Bureau
West Des Moines, Iowa

INFRASTRUCTURE SUBCOMMITTEE

Edgar F. Hansell, Chair
Nyemaster, Goode, McLaughlin, Voights, West, Hansell and O'Brien Law Firm
Des Moines, Iowa

Janet Phipps, Co-Chair
Department of General Services
State of Iowa

The Honorable Lorna Burnside
Buena Vista County
Storm Lake, Iowa

The Honorable Lee R. Clancey
City of Cedar Rapids
Cedar Rapids, Iowa

William M. Dikis, FAIA
RDG Bussard Dikis Inc.
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Ames, Iowa

Robert Lester
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Charles MacNider
Piper Jaffray, Inc.
Mason City, Iowa

Mike McCarville
Webster Co. Economic Development
Fort Dodge, Iowa

Merlin Plagge
Iowa Farm Bureau
Sheffield, Iowa

The Honorable Don Redfern
State Senate
Cedar Falls, Iowa

Jim White
Deere & Company
Moline, Illinois

Charisse Yanney
Guarantee Roofing & Siding Co.
Sioux City, Iowa

BUDGETING PRACTICES

PART 1: PROMOTING A MULTI-YEAR PERSPECTIVE

In 1996, the State's financial condition is strong. The GAAP (generally accepted accounting principles) deficit has been eliminated, the State's reserve funds are full, the State has a surplus, tax relief is helping Iowa's families and making Iowa more competitive, and funds have been dedicated to maintaining Iowa's infrastructure.

However, the question must be asked - can State government discipline itself in the good times, so the good times can be sustained and be enjoyed by Iowans into the future?

In May 1996, the Governor stated three goals he had in reviewing legislative bills of the Seventy-sixth General Assembly. These goals demonstrate the discipline State government must show to remain financially strong:

1. To keep the overall level of spending as low as possible;

2. To assure the budget is on strong financial footing for fiscal years 1998 and 1999;

3. To prevent the State from sliding back into the poor budgeting practices that led us into a deficit in the past.

To accomplish these goals, State decision-makers must continually consider the State's long-term financial condition (i.e. future revenue and expenditure projections), when making short term budgetary decisions. Even as current budgetary commitments are being agreed to, the impact of these commitments on the current financial condition as well as the full cost of these commitments in future years should be summarized and published. Finally, biennial budgeting, on a modified basis, offers decision-makers the opportunity to impose a longer term perspective on the budgetary process.

Recommendations include:

- **Preparation of a four-year financial projection** beyond the current year, shared by the Governor with the General Assembly for informational purposes, complete with assumptions used for the projections, and developed collaboratively, to the extent possible, with the Legislative Fiscal Bureau.

- **Attachment of a five-year economic and revenue projection** prepared by the Iowa Institute of Economic Research or other independent organization, to the budget materials shared by the Governor with the General Assembly.

- Requirement that **fiscal notes** (notes are attachments to legislative bills outlining fiscal impact) **incorporate multi-year fiscal impact information**.

- A study of the **feasibility of extending the collective bargaining cycle** beyond two years.

- **Publication**, in list form and in individual appropriation bills, **of a list of spending commitments** that automatically create an increase in spending beyond the year being budgeted.

- **Weekly preparation**, toward the end of a legislative session, **of a statement of estimated financial condition** for the year after the year being budgeted, incorporating the list of automatic spending increases.

- **Adoption of modified biennial budgeting**, with the goal of biennial budgeting on a statewide basis by the year 2002; **biennial budgeting for all capital needs**; and **establishment of an overall spending target for the second year** of the biennium.

PART 2: INFORMATION TECHNOLOGY FUNDING

Technology can be a powerful asset for transforming how governmental business is performed, making government services more effective, economical and easier to access for its citizens. Taking its lead from the prior Fisher Commission which endorsed this view and made a number of recommendations relative to information technology(IT), the State has developed an enterprise-wide information technology plan and has begun the consolidation of it's three data processing centers under an IT agency.

However, IT budgeting and funding has not kept pace with how IT is viewed in State government. Budgeting and funding decisions are handled by department instead of enterprise-wide, leading to a lack of inter-connectivity between IT systems, and creating obstacles to collaboration between departments. Technology needs are sometimes viewed separately from programmatic needs instead of as integral enhancements to governmental programs. Administrative technology needs are ranked as low priorities even though these needs impact government statewide.

Recommendations include:

- **Development of a "checklist" for department IT requests** to ensure requests meet enterprise-wide standards and inter-connectivity criteria and **development of a prioritization process for multi-agency IT requests**, coordinated through the new IT agency.

- **Establishment of an IT Review Team** to evaluate multi-agency IT requests.

- **Legislative creation of a joint appropriations subcommittee** to review IT agency budget requests and multi-agency IT requests.

- **Establishment of a dedicated funding source** for large-scale, multi-agency IT projects.

- **Creation of educational opportunities** for all branches of government to enhance understanding of the significant role IT in government.

INFRASTRUCTURE

House File 2421 of the Second Session of the Seventy-Sixth General Assembly created a major funding mechanism, the **Rebuild Iowa Infrastructure Fund ("RIIF")**, to address the "vertical" infrastructure of the State. The fund is supported by **two dedicated funding streams**: (1) interest from reserves, and (2) annual receipts from gambling in excess of $60 million dollars. These funding streams will result in an estimated $75 million dollars directed each year towards the infrastructure needs of the State.

Vertical infrastructure is defined as facilities predominately architectural in nature, with an element of aesthetics, and not merely functional in nature. Examples are buildings and related site improvements, related finishes, systems, equipment and property, and statues and monuments.

Horizontal infrastructure, by comparison, includes facilities predominately functional in nature and located at, under, or parallel to and above ground level. Examples are transportation facilities, utility distribution systems, technological distribution systems and directly related utilitarian buildings. Horizontal infrastructure is **not included in RIIF funding**.

The Governor and the Legislature have taken the lead, and have provided us the opportunity to address the critical infrastructure needs of the State. A **rational, impartial, non-partisan process** is now needed for **selecting and prioritizing infrastructure projects**. RIIF should not be diluted by including funding for ongoing staffing and operational costs.

Priorities for RIIF are:

1. **Stop the bleeding** - immediately create a mandate for an adequate level of funding for maintenance for all existing facilities;

2. **Eliminate the backlog** - consistently fund deferred maintenance at a considerably elevated level; and

3. **Manage future investments** - require that all new construction and renovation include provisions for the **future** costs of proper maintenance, including the **dedicated funding** of such future costs.

It is appropriate to **channel all RIIF funding** for vertical infrastructure **through one authority** to assure a well-balanced and impartial determination of needs, **including repair and renovation of** existing infrastructure **as well as new construction.** This specifically includes all state-funded maintenance and capital improvements for vertical infrastructure, **including Board of Regents institutions, General Services facilities,** et cetera. It is important to note that our report makes **no recommendation to interfere with internal agency prioritization** of projects. However, it should be the duty of the Board recommended in this report to weigh total needs against the funding available, and to allocate scarce funds on the basis of objective criteria.

Because the present deferred maintenance backlog is so great for state-owned infrastructure, it is **not feasible to allocate scarce funds to address the problems of other public facilities** (i.e., counties, municipalities and schools). Thus, RIIF should be utilized **only for state-owned infrastructure.**

A **statewide system of common definitions and record keeping will help all governments** work together to exchange information, seek efficiencies and foster a broad public commitment to properly fund maintenance.

A number of definitions are suggested in this report which do not currently exist in Iowa law. **Definitions** include Routine and Preventive Maintenance, Vertical and Horizontal Infrastructure, Operations, Emergency Repair and Replacements, Deferred Maintenance, Repair and Replacement, Renovation and New Construction.

There should be a **clear, thoughtful and comprehensive process** addressing the proper maintenance, renovation and new construction of all State infrastructure.

The system must be **focused on long-term planning and the strategic mission** of the State. Required elements include clear definitions, a central inventory data base with up-to-date assessments of facilities and a resolve to eliminate the significant deferred maintenance backlog. The system must protect the long-term strategy from being diluted by short-term diversions of scarce funds.

Recommendations include:

- **Definitions** of key terms.
- **Amendment** of the infrastructure statute.
- Establishment of a **citizen Rebuild Iowa Infrastructure Board** of seven members for staggered terms of six years, appointed by the Governor, confirmed by the Senate.

- Amendment of the *Code of Iowa* to **provide staff support** to the Board.

- Establishment of a **mandatory, comprehensive, initial audit and centrally maintained on-going inventory** of State vertical infrastructure assets.

- **Allocation of funds** by the Board to vertical infrastructure projects. The Governor and the Legislature should be allowed to veto projects on the approved project list prepared by the Board, but not add any projects not recommended by the Board.

- Establishment of a **prioritization system** for RIIF funding of vertical infrastructure projects based on objective criteria.

- **Preference in funding** in the order of emergency repairs and replacement, deferred maintenance, renovation and new construction.

- Inclusion of **life safety, accessibility, historic preservation and energy conservation** as important criteria.

- When a **new vertical infrastructure project** is proposed for funding, **mandatory requirement for projected operations costs**, including maintenance and repair and replacement funding, funded by a **committed source of revenue**.

- Establishment of a **mandatory capital asset management program**, including the use of a **three-tiered system of annual facility audits.**

- **Mandatory requirement** that the Legislature fund **annual departmental operating budgets for routine and preventive maintenance at the minimum annual level of 1.5 percent of current replacement value**.

- **Mandatory requirement** that the Legislature create a **reserve fund for repair and replacement of finishes, systems, equipment and property, over the design life of the facility.** The **minimum annual funding level should be 3.5 percent of the building's current replacement value.** Alternatively, an interest bearing escrow account or endowment may be established at the initial funding of the project.

- Publication by the Board of an **annual square foot replacement value** for vertical infrastructure drawn from available national data.

- The Board should develop and maintain a **comprehensive five-year strategic facilities plan** for maintenance, repair and replacement, and renovation of vertical infrastructure in cooperation with all State agencies, updated annually.

ISSUES FOR FUTURE CONSIDERATION

The Governor's Committee on Government Spending Reform, i.e. the Fisher Commission, felt there were other areas that needed to be addressed but were outside the original scope or were too time consuming to take up given the Commission's aggressive timetable. However, the Commission concurred that these other issues should be presented as part of this report as priority areas the Governor may wish to review at some future date:

- Feasibility of State financing of local infrastructure needs
- Changes to further downsize / right-size State government
- Greater sharing of public personnel / services between levels of government
- Review of salaries and benefits - addressing the disparity between the public and private sector
- Secretary of State consolidation
- Extension of the renewal period of vehicle licenses from two to five years
- Extension of the renewal period of other licenses

IMPLEMENTATION STRATEGIES / FOLLOW - UP

The recommendations cited above are monumental and, when implemented, will dramatically change the way Iowans and State policy makers view their responsibilities and their mission.

- Citizens of Iowa will have better and more information relative to how State government budgetary and infrastructure decisions not only affect them now, but how those decisions will affect them in the future.
- Iowans will have better and more information on the assumptions and criteria used to make budgetary and infrastructure decisions.
- Lawmakers, and all branches of government, will be compelled to work together to maintain our strong financial position, now and into the future.

Just as the previous Governor's Committee on Government Spending Reform recognized what must be done to implement these recommendations, so too, does the 1996 Commission recognize what must be done:

- **Keep up the attention and focus on spending reform.** Only in this way can Iowans be assured that only prudent, sustainable spending decisions are made.

- **Continue the two-way communications with Iowans on progress** of spending reform and the implementation of these recommendations. Iowans must be pro-active and educate public officials on what is important to their families and their businesses, and State decision-makers must be proactive and explain to Iowa's families and businesses why the public policy decisions they make support what is important to Iowa's future.

- **Continue to develop and refine a long-term vision of government in Iowa** and further spending reform recommendations to support that vision. State government all must remain committed to making Iowa the best place to live, work and raise a family.

- **More immediately, hold meetings between the Governor and the legislative leadership** to work toward a consensus package of budgetary and infrastructure reforms, centered around the recommendations detailed in this report.

BUDGET PRACTICES

PART 1: PROMOTING A MULTI-YEAR PERSPECTIVE

Mission

To review, analyze and make recommendations about budgeting practices, including biennial budgeting, that will promote a multi-year perspective in decision making.

Introduction and Summary of Issues

Over the past several years, the financial condition of the State of Iowa has improved dramatically. The condition of the general fund on the basis of generally accepted accounting principles has improved from a negative $400 million in fiscal year 1992 to more than a $600 million positive balance in fiscal year 1996. This remarkable "$1 billion turnaround" has put Iowa in one of its strongest financial positions ever. However, now that the State has restored its financial stability it is important to make sure that it sustains that stability by focusing on its long-term, rather than short-term, financial condition.

In order to review the State's budgeting practices and make recommendations that will foster a longer term perspective in budgeting and decision making, the Governor's Committee on Government Spending Reform established a subcommittee to review the issues. This subcommittee, comprised of 13 Iowans from both the public and private sector, including large and small business leaders, focused their efforts on several budget related areas:

- The State's surplus balance and what can be done to insure that this balance is carefully managed over time;
- The State's need to eliminate financially unsound or "off budget" spending practices,
- The State's long-term spending commitments that have been enacted that are being phased-in over a multi-year time period; and
- The State's budgeting cycle and its effectiveness at encouraging long-term, rather than short-term thinking.

ISSUE 1: CONSIDERING THE FUTURE

Explanation of Issue

The condition of the general fund on the basis of generally accepted accounting principles has improved from a negative $400 million balance in fiscal year 1992 to more than a $600 million positive balance in fiscal year 1996. While remarkable in itself, this "$1 billion turnaround" is only one of the major accomplishments that the State has achieved. Others include:

- Budgeting consistent with generally accepted accounting principles (GAAP);
- Creating and maintaining full reserve funds (10%);
- Implementing major tax reductions;
- Maintaining a significant general fund balance; and
- Creating the Rebuild Iowa Infrastructure Fund.

While these changes have greatly improved the financial condition of the State, they also carry a risk that decision making which is too focused on a single year will result in an over-commitment of resources, thereby jeopardizing the State's strong financial condition in the future.

Specifically, for the first time in many years a surplus balance from the prior fiscal year has become a beginning balance in the current year. This carry-over balance is a one-time funding source and cannot be used to sustain ongoing commitments of a similar magnitude. This balance must be managed down very carefully and to do so requires a multi-year perspective. The illustration below demonstrates what occurs when a prior year balance is not carefully managed:

What Happens When A Prior Year Balance Is Committed To Ongoing Expenditure? (Example, $ in Millions)

	Year 1	Year 2	
Revenue	4,000	4,200	(5% growth)
Prior Year Balance	300	0	
Total Available Revenue	4,300	4,200	
Spending	(4,300)	(4,500)	(4% growth)
Ending Balance (Deficit)	0	(300)	

The presence of a significant number of multi-year budget commitments also creates a risk if decision making is limited to a single budget year. In fiscal year 1998 (the upcoming budget year), multi-year funding commitments (commitments made in past years that are being phased in) total $247 million. These commitments include such items as K-12 allowable growth, school technology, new prisons, and mental health property tax relief. Because the full effect of these commitments is not apparent in a single-year time horizon, the potential that these commitments will create significant future financial difficulties is often ignored. There is a need, therefore, to have multi-year information available as part of the decision-making process. The illustration below demonstrates what occurs when future commitments are not considered in current year decision-making:

What Happens When Future Commitments Are Not Considered In Current Year Decision Making? (Example, $ in Millions)

	Year 1	Year 2	
Revenue	4,000	4,200	(5% growth)
Spending	(4,000)	(4,150)	(4% growth)
Phasing in Prior Year Commitments		(250)	
	(4,000)	(4,400)	
Ending Balance (Deficit)	0	(200)	

Current Status

Currently in Iowa there is no cohesive mechanism to inform decision makers of the financial ramifications of long-term budget decisions which have already been made or are being considered. No single source documentation is published which lists those financial commitments with multi-year impacts. While long-term financial projections are prepared and may be used by both the Executive and the Legislative branches in making critical budget decisions, these projections are not routinely shared nor made public and therefore are not effective in shaping pending budget decisions that have an impact on the State's future financial condition.

An important component of the budgeting process critical to the development and use of long-term financial projections is the ability to make use of long-range economic forecasts. In order to effectively make multi-year budget projections a solid basis must first exist; long-range economic forecasts can provide that basis. Iowa currently relies on the University of Iowa Institute for Economic Research to provide economic and revenue forecasts for a two-fiscal-year period (current budget year plus one future year). These forecasts are reviewed quarterly by the Iowa Economic Forecasting Council. The Council's review, along with the forecasting information, is

provided to the Revenue Estimating Conference (REC) as background information for the REC to use in developing the State's official revenue estimate. This information is an invaluable resource that provides critical information, baseline data, and assumptions. The track record of Professor Charles Whiteman's revenue estimating over the past six years has been very good. In the aggregate over this time period, the mean actual error has been less than one percent.

In Iowa, as in most states, the Legislature prepares fiscal notes to project the fiscal impact of proposed legislation. These notes play an important role in providing expenditure projections on legislative proposals. Fiscal notes are not required by statute. They are, however, required by joint rules of the House and Senate, if joint rules have been agreed upon. During legislative sessions when there are no joint rules, the Legislative Fiscal Bureau follows tradition and prepares fiscal notes for all legislation with a projected fiscal impact of $100,000 or more. Each fiscal note contains a two-year projection of costs if there is an increase or decrease in the second year.

Research Summary

National experts agree that long-range financial projections are a critical component of sound financial management. Hal Hovey, editor of the national publication State Budget and Tax News, states that "considering the impacts of spending and tax decisions over a longer period than one year" is a practice that experts agree is one of the key criteria of successful budgeting practices. Ron Snell, Finance Director of the National Council on State Legislatures, states that he sees a trend around the country toward more and more governors including information about the long-term implications of their budgets in the materials presented to the Legislature. The information, he suggests, doesn't have to be elaborate as long as it effectively conveys the information. This finding was also confirmed by Kathleen Quail, Director, Public Finance Ratings, with the Standard and Poors Corporation, a financial rating agency. Also, Brian Roherty, Executive Director of the National Association of State Budget Officers, states that long-range economic forecasts done by "outside experts" can effectively be used as inputs for the projection of State revenues and expenditures.

A review of State budgeting practices surrounding the use of long-term financial projections has uncovered a wide variance among states as to how these projections are developed and used. For some states, Iowa included, the projections are done informally and are not widely shared. They are not statutorily required, they are not binding on the budgeting process and there is very little collaboration between the Executive and Legislative branches. Conversely, other states, such as Florida, have very extensive and elaborate processes that are formal, statutorily required, binding on the budgeting process, and require consensus between the Executive and Legislative branches. Many states fall somewhere between these two extremes. (See Attachment 15-A.)

In 1995, *Financial World* magazine conducted a study that ranked the financial stability of each of the states. In that study Iowa ranked sixth, only behind Utah, Virginia, Missouri, Minnesota, and Maryland. One common practice that the "top five" states use that Iowa does not is the projection of expenditures into the "out years" or those years that are beyond the current budget cycle. Four of the "top five" states make expenditure projections for four years and one state,

Consideration of Future Financial Condition In Annual Budget Process: A Continuum of Options

Characteristics of Multi-Year Financial Projections	No Projections Made	Informal Independent & Informational				Formal, Consensus & Binding
Extent to Which Information is Shared	NA	Not Widely Shared	Widely Shared	Widely Shared	Widely Shared	Widely Shared
Statutory Requirement (Formal) or Voluntary (Informal)	NA	Not Statutorily Required	Not Statutorily Required	Statutorily Required	Statutorily Required	Statutorily Required
Degree of Collaboration Between Executive and Legislative Branches	NA	Independent	Independent	Independent	Consensus	Consensus
Extent to Which Information is Binding on Budget Process	NA	Non-Binding (Informational)	Non-Binding (Informational)	Non-Binding (Informational)	Non-Binding (Informational)	Binding
States		Iowa; Most States Utah (1) Virginia (2)		Missouri (3) Minnesota (4) Maryland (5)	Kentucky	Florida

Utah, makes projections for five years. Currently, Iowa makes projections for only one year beyond the budget cycle. Research conducted on those states that do long-range projections suggests that the projections do assist in keeping the State's future financial condition in perspective. (See Attachment 16-B.)

One of the questions associated with a state's ability to support longer-range budget projections is the existence of good forecast information. Charles H. Whiteman of the Institute for Economic Research, showed that projecting out an additional year (beyond the two that he currently projects) would not significantly increase the degree of uncertainty associated with the forecast. Beyond that, the longer-term forecast would tend to converge to a historical average.

With respect to the practice of preparing fiscal notes, the research showed that legislatures around the country routinely prepare fiscal notes to provide expenditure projections on legislative proposals. These fiscal notes detail the projected financial impact of proposed legislation. While this practice is common, the number of years included in the projection and the extent to which this information is shared varies widely from state to state. The State of Utah, for example, which was ranked first in the nation in financial management in 1995 by *Financial World* magazine, requires a two-year projection on every fiscal note prepared. This fiscal note information is widely shared during the decision-making process and has been effective in estimating the collective "out year" impact of legislative proposals.

Recommendations

In order to increase the extent to which the State's future financial condition is considered during the budgeting and appropriations process, and to minimize the risk associated with a single-year focus, the following steps are recommended:

1. Include a four-year financial projection of anticipated general fund revenues, expenditures, and annual operating surplus or deficit as part of the budget materials transmitted by the Governor to the General Assembly. The four years are in addition to the current year.

    - Include the projections for informational purposes, and assure they are taken as serious input in the budgeting process.

    - Include major assumptions used in developing the projections, the rationale for the assumptions, and all background and data supporting the assumptions.

    - Develop the projections collaboratively, to the extent possible, with the Legislative Fiscal Bureau.

    - Do not include a statutory requirement initially; however, re-evaluate having a statutory requirement in the year 2000. This will allow time to study and review the accuracy, utility, and impact of the projections prior to implementing any statutory change.

Table O

Operating Expenditure Forecasts

	State	Multi-Year Expenditure Forecast	Years Beyond Current Budget Cycle^	Estimates Orginated in Agencies	Estimates Include All Programs	Are Projected Operating Expenses Published
	Alabama	X	1	X	X	B
	Alaska	-	-	-	-	NP
	Arizona	-	-	-	-	-
	Arkansas	-	-	-	-	-
	California	X	-	X	X	NP
	Colorado	-	-	-	-	B
	Connecticut	X	3	X	X	PS
	Delaware	X	5	-	X	NP
	Florida	-	-	-	-	B*
	Georgia	-	-	X	-	NP
	Hawaii	X	4	X	X	B
	Idaho	X	2	X	-	B
	Illinois	X	1	-	X	NP
	Indiana	-	-	-	-	NP
	Iowa	X	1	X	X	B
	Kansas	X	3	X	-	B
	Kentucky	-	-	-	-	-
	Louisiana	X	3	X	-	PS
	Maine	-	-	X	X	B
*	Marvland	X*	4	-	X	NP
	Massachusetts	X	2	-	-	B
	Michigan	X	1	X	X	B
*	Minnesota	X	4	X	X	PS
	Mississippi	-	-	X	X	B
*	Missouri	X	4	-	X	B
	Montana	-	-	-	-	-
	Nebraska	X	2	-	X	PS
	Nevada	-	-	-	-	NP
	New Hampshire	-	-	X	X	B
	New Jersey	X	2	X	X	NP
	New Mexico	-	-	-	-	NP
	New York	X	2	*	X	NP
	North Carolina	X	4	-	X	NP
	North Dakota	-	-	X	X	B
	Ohio	-	-	X	-	NP
	Oklahoma	X	2	-	X	NP
	Oregon	X	2	-	-	PS
	Pennsylvania	X	4	X	X	X
	Rhode Island	X	4	-	X	B
	South Carolina	-	-	-	X	B
	South Dakota	X	3	-	-	NP
	Tennessee	-	-	X	X	B
	Texas	-	-	X	X	B
*	Utah	X	5	-	-	NP
	Vermont	-	-	-	-	-
*	Virginia	X	4	X	X	B
	Washington	-	-	X	X	NP
	West Virginia	-	-	-	-	-
	Wisconsin	-	-	-	-	-
	Wvoming	-	-	-	-	NP
	Puerto Rico	-	-	-	-	NP
	TOTAL	26		22	27	

Codes: B....Published in the Budget NP....Not Published
PS....Published Separately * "Top 5 State"

^Refers to the number of years beyond the current budget year or biennium for which estimates are made.

Excerpted from The National Association of State Budget Officers, Budget Processes in in the States, February 1995

2. Request the University of Iowa Institute for Economic Research (or a similar independent organization) provide five-year economic and revenue projections. Publish the projections as part of the Governor's budget materials that are presented to the General Assembly.

3. When fiscal notes (an estimate of financial impact associated with a specific bill) are prepared, include information about multi-year impacts when the cost of a legislative proposal is projected to increase or decrease compared with the initial budget year. For capital projects and large-scale technology projects, include an estimate of future ongoing operating costs. Continue to develop the notes in a collaborative fashion between the Legislative Branch and the Executive Branch.

4. Explore the feasibility of extending the cycle of collective bargaining to more than two years. Such a move would remove a major source of future uncertainty and would simplify the process of presenting multi-year information. According to subcommittee members, collective bargaining cycles of three or more years are common practice for large companies in the private sector.

ISSUE 2: ACCURATELY STATING THE PRESENT

Explanation of Issue

A high level of emphasis on the general fund spending target for the budget year in question, and the lack of a requirement to look at the second year of the budget, fosters budgeting practices that understate the true level of spending and create built-in increases for the subsequent year. This emphasis on the short-term, rather than the long-term, results in the temptation to shift obligations to subsequent fiscal years or to other, one-time sources of funding. Both of these practices represent unsound budgeting practices and therefore jeopardize Iowa's future financial stability.

Current Status

Iowa currently has no requirement to report how current budget decisions will affect years beyond the fiscal year for which budget decisions are being made. In an effort to stay within spending targets, this frequently leads to "off budget" spending practices that are contrary to sound financial management. For example, during the last legislative session the following off budget spending practices occurred:

1. Shifting ongoing general fund spending to other one-time funding sources.

    - Human Services technology ($1 million)
    - Human Services staff ($790,0000)

2. Funding items in the wrong fiscal year, i.e., fiscal year 1996 "supplemental" appropriations for fiscal year 1997 spending. If the item is an ongoing expense, because it is not included in the base budget for the year in which the spending actually occurred, it will appear as an increase in the following year.

   - Housing Councils ($1 million)

3. Including in an appropriations bill program changes that have a cost impact, but not providing the necessary funding. The result is a need for "supplemental" funding during the fiscal year.

   - Human Services provider reimbursements ($6.4 million)

4. Creating future built-in increases (automatic pilot spending) by providing only partial year funding which will have to be annualized the following year.

   - Funding newly hired judges for only one month of the fiscal year, resulting in a twelve-fold increase during the subsequent year.

The second-year financial implication of budget decisions such as those identified above are not required to be disclosed in Iowa. Therefore, the full future impact of financial commitments are not known at the time budget decisions are made.

Research Summary

Research conducted by experts involved in governmental budgeting and finances has revealed that many states are concerned about practices that conceal the true level of spending and create built-in increases in the future. *Financial World* magazine noted in their article, "State of the States 1995," that several states are attempting to avoid or eliminate the use of "quick fix" budgeting practices that do not accurately reflect the true level of spending. Claudia Hutton, Communications Director for the New York State Budget Office, explained the problem very clearly by stating, "When you rely on nonrecurring revenues, you just mask your problems and exacerbate them."

Recommendations

1. On a weekly basis during the last 30 days of the session, and again at the close of the session, publish and circulate among the membership of the General Assembly an itemized list of all spending commitments, including the dollar amount for each of those commitments, that create an "automatic" increase during the subsequent year. In addition, include this information in individual appropriations bills so that members can be alerted to poor budgeting practices as decisions are made. The disclosures should include such items as:

- The annualized amount of any partial year funding.

- The amount of any potentially ongoing spending item funded from a one-time spending source, including unspent prior year funds (reversions).

- The amount of any item of spending for the fiscal year that is appropriated in a prior fiscal year.

- The amount of any item that in the subsequent year would not be eligible for funding from its non-general fund source, according to current or newly enacted definitions.

2. On a weekly basis during the last 30 days of the session and again at the close of the session, publish a statement of the estimated financial condition of the year following the budget year, incorporating the list of spending commitments referred to above.

The information referenced under recommendations 1 and 2 would be provided by the Legislative Fiscal Bureau, triggered by a request from the Governor to the General Assembly. Similar information, though for a longer time period, would have already been provided by the Governor.

ISSUE 3: BIENNIAL BUDGETING

Explanation of Issue

One budgeting practice that offers the potential for enhancing the consideration of future financial condition in the budgeting process is the concept of biennial budgeting. An annual budget requires that a new budget be prepared for each fiscal year. A biennial budget, however, covers a two-year period and requires that a new budget be prepared every other year. While there are various advantages and disadvantages for each type of budgeting process, there is general agreement that, because more time is available in the off-year, biennial budgeting provides more of an opportunity for long-term planning, program review and evaluation.

Current Status

Currently, the State of Iowa has an annual legislative session and budgets on an annual basis. Section 8.22, *Code of Iowa*, requires the Governor to recommend annual budgets for Executive Branch agencies. State agencies are required, by the Department of Management, to submit budget requests which reflect two fiscal years. The Governor submits two-year budget recommendations to the Legislature. This two-year budget submission requirement encourages State agencies to consider the long-term implications of their request. The Legislature, however, appropriates funds for only one fiscal year.

The budgeting process in Iowa is undergoing a tremendous change that will dramatically impact the effectiveness of services delivered to Iowans. This new budgeting process, Budgeting For Results (BFR), ties budgets directly to desired results expressed as program performance measures. Under this new process, State agencies will define desired program results, establish the cost to achieve the desired results, determine how many of the desired results can be achieved with the resources budgeted, and take action to improve the program results. BFR creates opportunities to focus budget decisions on strategic issues that positively impact Iowans rather than line items in budgets that focus details of programs. This system change is being implemented gradually in Iowa, but its implementation could be accelerated with a biennial budgeting cycle.

Research Summary

According to the National Conference for State Legislatures (NCSL), 30 states have annual legislative sessions and enact annual budgets. Seven states have biennial legislative sessions and enact biennial budgets, and 13 states have annual legislative sessions and enact biennial budgets. (See Attachment 20-C.)

There has been an extensive amount of research conducted surrounding the advantages and disadvantages of annual and biennial budgeting. Listed below is a summary of the significant advantages and disadvantages of each:

Biennial Budgeting

Advantages:

- Clearly allows more opportunity for in-depth program review and analysis by both the executive and legislative branches;
- Results in a longer-range perspective in budget and fiscal planning;
- Alleviates perpetual involvement in the minutiae of the budgeting process by administrative and fiscal staff, enabling more attention to be directed toward work that is value-adding; and
- Can be very flexible, i.e., adjustments to appropriations (up or down) can be made as necessary during the second year.

Disadvantages:

- Increased need for mid-term appropriation adjustments; and
- The reliability of revenue and expenditure forecasts tends to decrease over time.

TABLE 1. ANNUAL AND BIENNIAL BUDGETING STATES IN 1993
(**Boldface** indicates the 10 most populous states)

ANNUAL SESSION ANNUAL BUDGET (30 states)	ANNUAL SESSION BIENNIAL BUDGET (13 states)	BIENNIAL SESSION BIENNIAL BUDGET (7 states)
Alabama	Connecticut*	Arkansas*
Alaska	Hawaii*	Kentucky*
Arizona	Indiana*	Montana*
California	Maine*	Nevada*
Colorado	Minnesota*	North Dakota
Delaware	Nebraska*	Oregon
Florida	New Hampshire*	**Texas***
Georgia	**North Carolina***	
Idaho	**Ohio***	
Illinois	Virginia*	
Iowa	Washington*	
Kansas	Wisconsin*	
Louisiana	Wyoming	
Maryland		
Massachusetts		
Michigan		
Mississippi		
Missouri		
New Jersey		
New Mexico		
New York		
Oklahoma		
Pennsylvania		
Rhode Island		
South Carolina		
South Dakota		
Tennessee		
Utah		
Vermont		
West Virginia		

* Biennial budget states that enact two annual budgets at once. Other biennial budgets enact a consolidated two-year budget.

Excerpted from "Annual and Biennial Budgeting: The Experience of State Governments," by Ronald K. Snell, Fiscal Program Director, National Conference of State Legislatures, August, 1996

Annual Budgeting

Advantages:

- Increased accuracy of revenue and expenditure estimates;
- Fewer mid-term appropriation adjustments; and
- Allows the Governor and the Legislature to do a more frequent review of agency expenditures and requires State agencies to develop tighter administrative controls over the spending of public funds.

Disadvantages:

- Less time for program review, planning, and policy analysis;
- Less time to explore substantive issues and places restrictions on all other activities;
- Requires continual involvement in the budgeting process by administrative and fiscal staff; and
- Results in a narrow viewpoint and encourages short-term fiscal decisions.

The advantage cited uniformly by states with biennial budgets was the ability to undertake more in-depth program review, analysis and evaluation. This additional capability enables the budget to be better tied to plans, and in turn, more effectively used as a tool for achieving results.

Perhaps the most commonly perceived problem associated with the biennial budgeting cycle is the decreasing accuracy of spending and revenue forecasts in the future years or "out years." The subcommittee carefully reviewed this issue and was comfortable that the model used by Charles Whiteman to make financial projections has been accurate and that projecting out into a second year would not significantly increase the degree of uncertainty associated with his forecast. Additionally, in 1995, *Financial World* magazine cited the accuracy of Iowa's revenue estimates as one of the factors contributing to its "A" rating in financial management.

Two states have recently changed the way that they budget. Nebraska and Connecticut changed to biennial budgeting because their former system of annual budgeting did not allow enough time to review expenditures in depth. Leaders in the Texas Legislature contend that the biennial budget cycle was essential to their reforms. It provided time for the development of long-range plans, performance measures, and benchmarks, and for the negotiating among legislators, Executive Branch officials, and agency staff that the process required.

Some states, Arizona and Kansas for example, have implemented a modified biennial budgeting approach. Beginning with the 1995 session, the Arizona Legislature made biennial appropriations for 88 State agencies and continued to make annual appropriations for only the 14 largest agencies. Those 14 agencies receive more than 95 percent of total appropriations. This reform

removed a large number of very small budgets from annual reconsideration. The time in the off year is used for program performance evaluation. Agencies are required to develop strategic plans and evaluation criteria and submit them to the Legislature. The Legislature reviews the strategic plans and conducts a series of program authorization reviews intended to link budgets to performance. Arizona's modified biennial budgeting approach is designed to allow for these improvements while not forsaking the advantages of annual legislative review of the budgets of major State agencies. Kansas also is experimenting with this combination of biennial and annual budgeting on a limited basis.

States that budget biennially routinely establish spending targets for the second year of the biennium. Minnesota, for example, develops expenditure projections that focus on 8 to 12 major program areas with simple inflationary adjustments in the out years to the balance of spending areas. Although the out-year projections are not binding, they act as spending targets and provide an excellent tool for identifying emerging trends. This then allows planning and decision making to focus on these budget issues. It is also provides a framework in which to view the State's financial condition in the second year.

Recommendations

Biennial budgeting offers the potential to address many of the budgeting practice issues identified by the subcommittee. For example, the new Budgeting For Results process necessitates that additional time be dedicated to program review, planning, and policy analysis in order to determine the effectiveness of State programs and the appropriateness of State expenditures. Biennial budgeting would provide that oversight opportunity during the second year or the "off year" of the biennium because of the additional time that would be available. Additionally, with the accuracy and success of the Whiteman model of making long-term projections, biennial budgeting provides an opportunity to budget for more than one year without significantly increasing the degree of uncertainty of the forecast. Considering the significance of these two issues, it is recommended the State adopt a modified biennial budgeting process, similar to Arizona and Kansas, which will afford an opportunity to gain experience in a gradual fashion.

- Beginning in 1998, enact a biennial budget for a subset of agencies with no history of supplemental funding, relatively stable funding, and which are most advanced in Budgeting For Results (BFR). Success should be monitored, with the eventual goal of all agencies being on a biennial basis by the fiscal year 2002.

- Move all capital budgeting to a biennial basis. (Some capital budgeting, such as the Board of Regents capitals, were moved to a biennial basis this year.)

- Establish an overall spending target for the second year of the biennium. Such a target would reflect an update of the projections made by the Governor at the beginning of the session, and would take into account the second-year implications of choices made during the first year of the biennium.

BUDGET PRACTICES
PART 2: INFORMATION TECHNOLOGY BUDGETING

Mission

To review, analyze, and make recommendations about technology funding, including funding sources, prioritization and decision-making processes.

Introduction and Summary of Issues

Like any large company in an information-intensive industry, the use of technology to advance the business plans in State government offers tremendous potential to transform both services and operations. Yet, because the cost of technology can be so high, the investments must be carefully managed. Recognizing its potential, in 1991 the Governor's Committee on Government Spending Reform (the Fisher Commission) included a task force on information technology (IT), which made a number of recommendations to better position State government in the Information Age.

The key recommendations from this task force have now been implemented, including the development of an "enterprise-wide" (across all agencies) information technology plan, and more recently, the administrative consolidation of the State's three data processing centers and other related enterprise IT activities. With an enterprise plan and the restructuring of information technology services in place, the State is now effectively positioned to move into the future with the view that information technology is a key asset in State government, rather than a back-room "utility" function. This view reflects the growing recognition of the importance of IT in advancing the overall mission of State government.

While many of the planning and organizational changes have been made to position IT as an asset in State government, funding and budgetary issues have yet to be resolved. Among the issues:

1. There is a lack of an enterprise (statewide, cross-agency) perspective with respect to IT budgeting, both within and across the executive, legislative and judicial branches of State government. This lack of enterprise perspective can have several consequences:

    - Priorities are not established from an enterprise point of view. Success or failure of funding requests depend largely on the amount of support from an individual appropriations subcommittee and the ease or difficulty with which it is able to meet its budget "target," rather than return on investment or contribution to statewide priorities.

- Decisions made independently may result in a lack of compatibility or inter-operability with other information technology systems. Having systems that can't "talk" to each other means that data may exist in many places, but it can't be tied together and used as information to support better service or management decisions. It also means that clients have to provide the same information over and over again every time they interact with a different agency of State government.

- Technology tools and capacity are acquired by multiple agencies rather than shared, increasing the cost and creating unnecessary duplication.

- Opportunities for multi-agency collaborative efforts such as an integrated workforce development information system are more difficult to execute, since "ownership" is fragmented and no process exists in the budget system to effectively advance these multi-agency initiatives.

2. Information technology does not effectively compete in the appropriations process. There are a number of reasons for this:

    - Sometimes a decision may be cast as "computers versus clients," (for example, child care assistance versus PC software upgrades) rather than being understood as an investment in improved service, streamlined processes, and even reduced costs.

    - Internal administrative systems such as financial accounting, budgeting and purchasing are highly dependent on information technology, yet because they are lodged with administrative agencies, they are most subject to "cutting government" initiatives. This occurs despite their wide-ranging impact on all agencies and services.

    - Information technology lacks a constituency. Practically speaking, through the political process, the presence or lack of a constituency can have a major impact on budgetary outcomes.

A comparison of State government (a highly information-intensive industry) with Fortune 500 companies of similar size ($4.5 billion - $6.7 billion net revenues) shows that total spending for information technology in State government is about 1.3 percent of annual revenues, whereas in these comparably sized private sector companies, the percentage averages 2.1 percent. Some of this difference may be attributable to the factors described above.

Current Status

In the Executive Branch of State government, all IT budget requests are independently developed by each agency. The new IT agency currently has no role in the development or review process. The review by budget office staff does not occur from an enterprise standpoint; it is agency-by-agency. Requests are often presented separately from programmatic requests, so the evaluation may to some degree involve a "computers versus clients" choice. Typically, information is neither

requested nor provided concerning return on investment. A review to ensure compatibility with predominant technology architecture does not occur. Few collaborative projects are requested. For fiscal year 1998, about $33 million in new funding requests have been made for IT projects.

In the Legislative Branch, most IT funding recommendations are considered by individual appropriation (budget) subcommittees on an agency-by-agency basis. For example, the Human Services appropriations subcommittee would consider the Governor's recommendations for the Department of Human Service's (DHS) IT requests along with all other DHS budget recommendations. There are two information technology-related standing (non-budget) committees that have recently been formed. They are the Technology Committee in the House, and the Communications and Information Policy Committee in the Senate. While standing committees traditionally have no budgetary role, these committees have nevertheless been involved in the appropriations process for the Iowa Communications Network (ICN) and could potentially have a role in the future with the new IT entity.

Research Summary

Information technology organization and funding in State government is a work in progress all across the nation. There is no "model" of management and budgeting, nor any obvious continuum of options. While this makes the challenge greater, it also affords an opportunity for Iowa to assume a leadership position among State governments in technology organization and budgeting. The perspectives of subcommittee members, some of whom are working through these same issues, was especially valuable in the insight it provided about private sector approaches and how they might be applied to State government.

A summary of the research that was undertaken is provided below.

Brian Roherty, Executive Director of the National Association of State Budget Officers (NASBO) was asked for a reference on which state is "most advanced" in terms of how it undertakes budgeting for information technology, compatible with the "IT as an asset" philosophy adopted in Iowa. Mr. Roherty suggested Maine as the best example.

Beginning in fiscal year 1997 (this year), Maine established a coordinated effort to plan, budget and acquire information technology for State agencies. This change in the process was tied to an overhaul of the State's Department of Information Services which now coordinates agency IT planning and acquisition.

Maine's effort began with the Governor setting aside $5 million for information technology acquisition from savings generated by Executive Branch agencies. (The equivalent amount in Iowa, based on the overall size of the State budget, would be about $12 million.) In order to qualify to receive these funds, State agencies were requested to develop a strategic technology plan. The plans were submitted to the Department of Information Services, which in turn screened them and forwarded them to the Information Technology Plan Review Team. The IT Plan Review Team composition represented a cross-agency commitment of people with IT

expertise. The IT Plan Review Team's role was to review all plans and the corresponding budget requests and make final decisions as to which projects received funding and how much was spent.

Other states with a centralized IT review function in the Executive Branch include Arizona and Indiana. Both have created standardized formats that bring to bear in the decision making process information about return on investment, how the projects support agency business plans, whether opportunities to collaborate with other agencies have been explored, whether statewide standards of compatibility are met, and how well the projects meet statewide priorities. In Arizona, a centralized IT agency performs this function. In Indiana, the review function is carried out by the budget office in collaboration with a Data Processing Oversight Commission.

Private sector members of the subcommittee and several presenters indicated that in their companies, a corporate-wide perspective is accomplished in IT funding by involving key managers in a group decision making process. This way, individual agencies are forced to consider their requests within the context of contribution to overall corporate goals.

Recommendations

In order to foster more of an enterprise-wide perspective in IT decision making and to enhance the ability of IT to compete effectively in the appropriations process, the following steps are recommended:

1. Enhance the role of the new Information Technology Services organization in the planning and budgeting process. The role should vary depending on the extent to which the request is agency-specific or multi-agency:

    - Use a "checklist" approach for agency-specific requests to assure that enterprise-wide standards (for connectivity or inter-operability) are being followed, and that opportunities for joint development with other agencies have been explored. It is important to keep agency-specific projects with the agency budget request, based on the principle that information technology supports the implementation of a business plan and is NOT a separate function. As much as possible, agencies should incorporate IT into programmatic requests rather than isolating them as separate requests. The IT agency can help departments assemble a business case for IT requests.

    - Use a prioritization and advocacy approach for large multi-agency projects or projects with multi-agency impact. The IT agency could develop a standardized evaluation format that generates return-on-investment information, and in some instances could assist an agency in assembling this information. For example, quantifying the benefits (time savings) of a new financial accounting system would require a coordinated effort involving all State agencies. Similarly, the Year 2000 programming changes that will be necessary to maintain the operation of State government is a large-scale (potentially $30 million) project that must be undertaken in a coordinated fashion. Because these

multi-agency projects are typically high dollar, they are unlikely to all be funded in a given year. Therefore, a prioritization method is critical. The prioritization process would be facilitated by the IT agency, undertaken in consultation with a review team (see # 2 below) and results used in the budgeting process.

- In order to fulfill these responsibilities, the IT agency should be empowered to make necessary information requests from other State agencies.

2. Undertake the review and prioritization by the IT organization of large, multi-agency requests in conjunction with an IT Review Team made up of key cabinet level directors and the budget director. The process should be a consultative one, similar to what has been found to be effective in the experience of private sector members of the subcommittee. Such a process would ensure that IT decisions are made on the basis of an overall plan for State government.

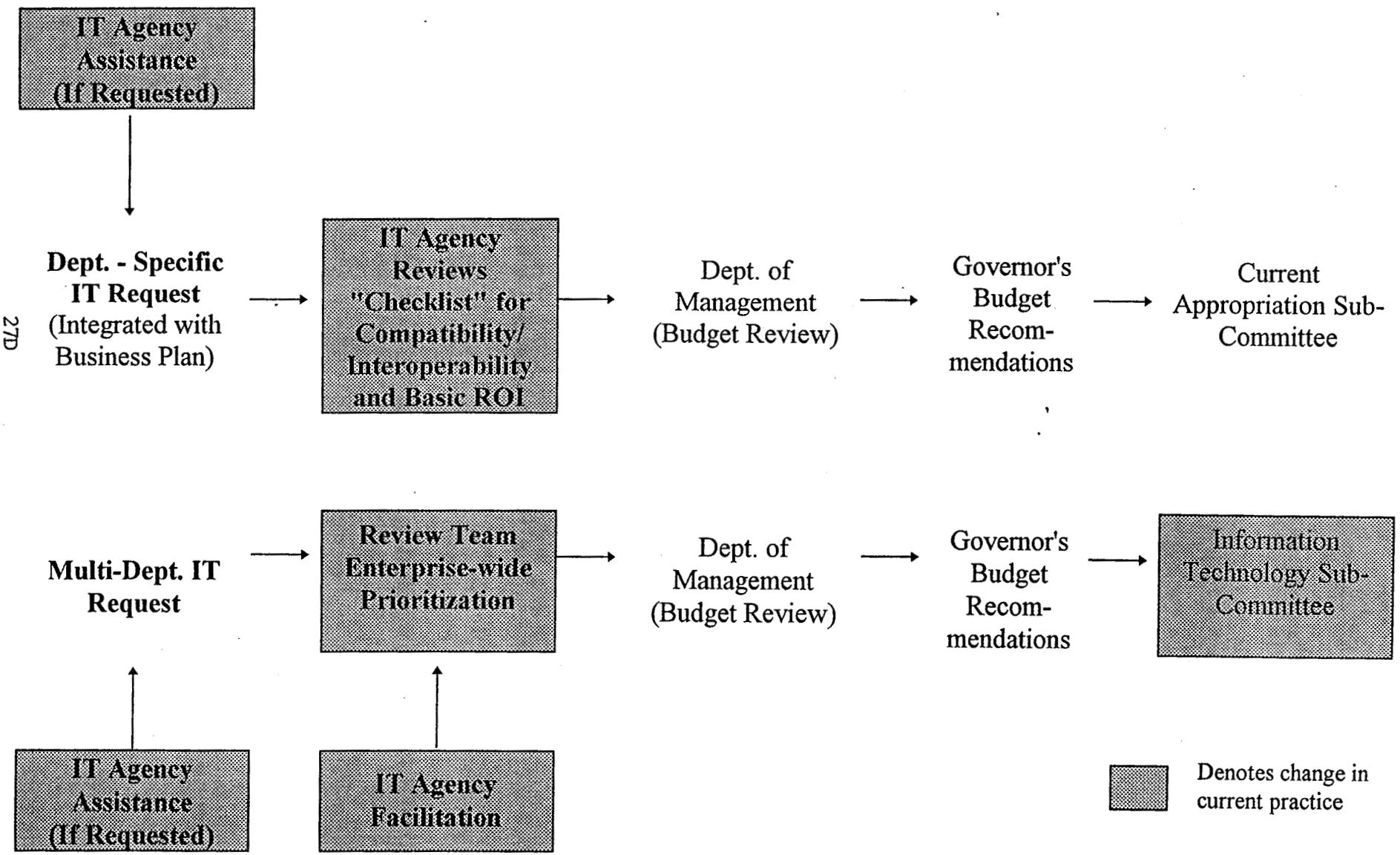
3. Consider, within the General Assembly, the creation of a joint appropriations subcommittee for information technology dedicated specifically to the IT agency itself and to larger-scale projects that either involve or affect multiple agencies. These projects will typically result in appropriations to multiple agencies, but the decision making would be occurring in a centralized fashion. The decision making would be informed by the analysis and prioritization done by the Review Team. Agency-specific IT budget recommendations should still proceed through their respective appropriations subcommittees.

4. Consider the establishment of a dedicated funding source for the large-scale, multi-agency IT projects. Currently, at the end of each fiscal year, 50 percent of their annual operating savings are retained by agencies to carry forward for use in meeting technology or training needs. Similar to the Maine approach, one idea would be to dedicate the other 50 percent of operating savings to an enterprise-wide "Technology Fund." Such an approach would have generated about $3 million this year. Other options should be explored in addition to operating savings.

5. Expand on education efforts and develop leadership within all branches to enhance the understanding of the significant role of information technology and the management issues associated with it.

Attachment 27-D depicts the recommendation for the expanded role of the Information Technology Agency in the budgeting process.

Proposal for Expanded Role of Information Technology Agency in Budgeting Process



27D

Attachment D

GLOSSARY

Budgeting For Results (BFR) - A budgeting process used in Iowa, tying the budget directly to desired results expressed as program performance measures. It focuses on long-range goals, providing a clearer understanding of what is being done, why it's being done, and how results are measured.

Department of Management (DOM) - A State agency attached directly to the Office of the Governor and under the general direction, supervision, and control of the Governor. DOM is responsible for providing overall direction, coordination, and support in the areas of strategic planning, policy and budget development for all State agencies.

Generally Accepted Accounting Principles (GAAP) - Accounting standards for governmental entities as established by the Governmental Accounting Standards Board(GASB).

General Fund - A fund derived from taxes levied for State general revenue purposes, and all other sources which are available for appropriation for State purposes, and all other money in the State treasury which is not by law otherwise segregated.

Information Technology(IT) Agency - A recently formed entity in State government responsible for implementation of the administrative consolidation of the State's three data processing centers.

Institute for Economic Research - An organization created by the Board of Regents in 1975 to facilitate cohesive and continuing economic research, and to establish a formal mechanism for providing interaction with, and economic research services to, government and industry.

Iowa Economic Forecasting Council - A Council created by the Governor's Executive Order Number 49. The Council is to assess the reasonableness of forecast assumptions, evaluate the quality of forecast tools, suggest alternative forecast methodologies, and advise on dissemination of forecasts.

Legislative Fiscal Bureau (LFB) - The General Assembly's non-partisan support staff responsible for fiscal and policy analysis.

Legislative Fiscal Note - A non-partisan analysis conducted by the LFB of estimated costs and/or revenues generated by actions included in a proposed piece of legislation. The analysis includes derivation of changes to the general fund, other State funds, and to other political subdivisions in excess of $100,000 annually or $500,000 over a five-year period.

Rebuild Iowa Infrastructure Fund (RIIF) - A fund under the authority of DOM consisting of appropriations, transfers to the fund, interest earnings, and other moneys as provided by law. Moneys in the RIIF must be used as authorized by the General Assembly for public vertical infrastructure projects.

Revenue Estimating Conference (REC) - A committee created to develop State revenue estimates for use by the Governor and General Assembly in preparation of the State's annual budget. The REC may meet as often as necessary, but must meet at least quarterly to update revenue estimates. The REC has three members: the Director of the DOM, the Director of the LFB, and a third member agreed to by the two specified members.

INFRASTRUCTURE

Introduction

Governor Terry E. Branstad described the mission of the Infrastructure subcommittee in his letter of July 12, 1996, to be "...to come forth with recommendations on how the State infrastructure planning and decision-making process should be managed for the benefit of all Iowans." The subcommittee, in turn, defined its charge as follows:

- Define infrastructure
- Identify 'scope' of State assets
- Recommend a method of identification and prioritization of projects
- Recommend methodology for allocation of resources

The subcommittee received and reviewed substantial written materials and heard from a number of interested persons and agencies in the process of reaching the recommendations and conclusions offered in this report.

Background

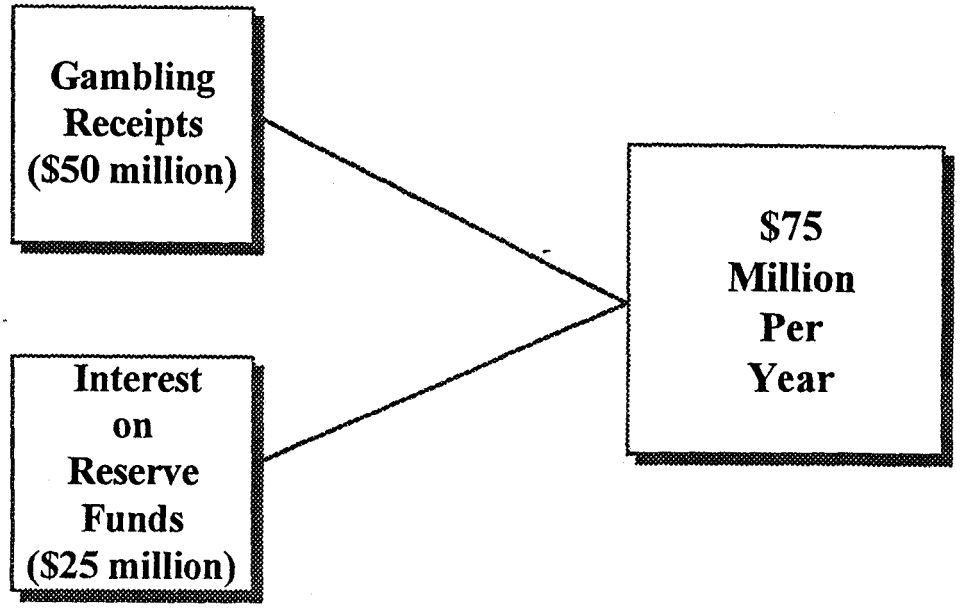
House File 2421 of the second session of the Seventy-Sixth General Assembly took a significant and historical step to address the serious infrastructure needs of the State of Iowa: the creation of a major funding mechanism, the Rebuild Iowa Infrastructure Fund (RIIF), to address the "vertical" infrastructure of the State, especially the backlog of deferred maintenance accumulated over past years.

RIIF is supported by two dedicated funding streams: (1) interest from two reserve funds of the State, and (2) annual receipts from gambling in excess of $60 million dollars. The combined effect of these funding streams will result in approximately $75 million dollars directed each year towards the infrastructure needs of the State (see Table 1). However, it is important to note that the funds, while dedicated, are "soft" in the sense that gambling receipts may well drop in future years, and poor economic years for the State in the future may erode the reserve funds and thus reduce the interest or, worse, become diverted in times of crisis to non-infrastructure needs. As well, one estimate of more than $116 million in current deferred maintenance and more than $1.6 billion in State facility overall needs over the next ten years[1], suggests that the funding level is not sufficient to address the scale of the problem. This is especially true in that RIIF is intended to address not only deferred maintenance, but also renovation and new construction.

[1] "Iowa Infrastructure '95; A Report of Infrastructure Needs in the State of Iowa," by James E. Rowings and David J. Harmelink, Iowa State University Department of Civil and Construction Engineering.

Table 1

Rebuild Iowa Infrastructure Fund



Nevertheless, the creation of RIIF is an important, bold step in moving public policy towards a serious commitment to the proper care of our huge investment in public facilities. With the adoption of this concept, Iowa will be in position to be considered one of the best managed States in the nation.

In comparison to its vertical infrastructure, the horizontal infrastructure of Iowa has enjoyed better treatment, especially due to the sizable road use tax funds that flow to the Department of Transportation (DOT) dedicated to the maintenance and construction of highways and other transportation uses. Non-transportation horizontal infrastructure, such as parks and bike trails, sewer and water lines, et. cetera., vary widely in their history of maintenance, depending in part on whether they are under public or private ownership. Horizontal infrastructure not included under DOT authority and not under private ownership will likely need future attention to assure an adequate standard of maintenance.

Rebuild Iowa's Infrastructure Fund(RIIF) Development

Now that a good beginning has been made with the establishment of RIIF, it is time to thoughtfully refine the concept by examining methodology and process, optimizing the use of scarce funds and creating accountability. Due to the enormous backlog of deferred maintenance, funds should be used as follows:

1. Stop the bleeding - immediately create a powerful mandate for a responsible level of funding for maintenance for all existing facilities to prevent any worsening of the backlog;

2. Eliminate the backlog - consistently fund deferred maintenance at a considerably elevated level vis à vis today's level of funding; and

3. Manage future investments - insist that all new construction and renovation include, beginning with predesign planning, the future costs of proper maintenance, including the dedicated source of such funds.

A rational process for selecting and prioritizing projects is required to assure the effective and appropriate use of RIIF funds and to prevent dilution through the influence of individuals and special interest groups. For example, the General Assembly, during the last session, appropriated more than $5 million of RIIF funds for ongoing staffing and operational costs, as well as non-State infrastructure, thereby shifting those funds away from critical infrastructure needs of the State. RIIF funds should be used for vertical infrastructure needs of the State. RIIF should not be used for general operating expenditures or for non-state purposes.

An impartial, non-partisan system for the annual evaluation of projects is required. The purpose of such a system is to identify, based on relative criticality and objective criteria, a priority for the use of RIIF funds. The funds must be balanced among goals of: (1) elimination of deferred maintenance backlogs (2) renovation of older facilities, and (3) construction of new facilities to replace worn out facilities or to embrace growth, new programs and services. Legitimate strategies for addressing deferred maintenance include not only repair and replacement, but also elimination of the problem areas through renovation, or abandonment and demolition, or replacement by new construction.

It is essential to channel all RIIF funding for vertical infrastructure needs through one authority to assure a well-balanced and unbiased determination of needs. This specifically includes all State-funded maintenance and capital improvements for vertical infrastructure of the State, including Board of Regents institutions, General Services facilities, et. cetera. It is important to note that there is no desire to interfere with the internal agency prioritization of projects; these are often influenced by extenuating factors best known and evaluated by the specific agency. However, it should be the duty of the Board as established through a recommendation later in this report to weigh total facility needs against the funding made available by the Legislature and Governor and to allocate the funds in a balanced program, on the basis of objective criteria.

Although "Rebuild" in the title could be narrowly interpreted to apply only to facilities already existing, the subcommittee concluded the Legislature intended that new construction also be included in the scope of responsibility and funding. This is especially appropriate as it presents the opportunity to create a mandate for new construction to include a strong commitment to future ongoing maintenance, thus assuring the backlog of deferred maintenance does not arise again. The affordability of new construction must be carefully balanced with the pressing reality of properly caring for investments already in place.

A fundamental shift in the public attitude and commitment needs to be encouraged towards making the proper care and maintenance of our enormous investment in existing infrastructure a priority needs to be encouraged. Because the deferred maintenance backlog is currently so large for State-owned infrastructure, it is not advisable to divide scarce resources to address the problem of other non-State-owned public facilities. Thus, RIIF must be limited to State-owned vertical infrastructure. However, a statewide system of common definitions, record keeping practices and prioritization can help all governments work together to exchange information, adopt common terminology, seek efficiencies and foster a broad public awareness and commitment to properly funding maintenance.

The design of an effective system must focus on long-term planning. Required elements include clear definitions, a centralized data base with up-to-date assessments of facilities, and a resolve to bring under control the skyrocketing deferred maintenance backlog. Public policy must simultaneously address the elimination of deferred maintenance backlog and protection of our assets for the future. The system must protect long-term strategy and process from being diluted by short-term diversions of scarce funds.

Attachment E, page 49, shows a breakdown of the FY 1996-1997 expenditures appropriated by the Legislature and approved by the Governor during the first year of RIIF funding. These expenditures are cross-referenced into four categories: maintenance, new construction, technology, and other. Of the total FY 1996-1997 expenditures, only 26.6 percent of the funds are directed towards maintenance and renovation.

It is essential to create an ironclad commitment to properly fund routine and preventive maintenance and repair and replacement of all State-owned facilities. This is particularly true of proposed new construction, where the decision whether to build new facilities must recognize the ongoing costs of operations, including responsible maintenance.

There are four major issues that must be addressed in refining the opportunities presented by establishment of the Rebuild Iowa Infrastructure Fund (RIIF).

ISSUE 1: CLEAR DEFINITIONS

Clear definitions of RIIF terminology are required so that State agencies and departments, as well as other public bodies, can exchange information and make rational and intelligent decisions. It may be desirable to include some definitions in the statute, while others may be better included in promulgated rules to more easily allow updating.

Current Status

The Department of Management internally establishes definitions that are used to add clarity in collecting capital budget requests. Their purpose is to capture different cost elements in a capital budget request, not to summarize projects by type. These definitions are not meant to set a statewide standard for all agencies to use in their daily operations.

Two other factors have influenced the lack of statewide definitions for capital projects. First, bonding for capital projects is normally for specific projects and procedurally requires project-specific formal definitions of allowable expenditures. Second, the State of Iowa has historically been unable to make funds available on a recurring basis to address infrastructure needs. With only intermittent funding, past infrastructure needs have had to attain a critical status before funds were appropriated to meet these needs, a form of "crisis management." Now that a consistent and recurring source of funds has been identified and the need to more adequately address the infrastructure of the State is widely recognized, formal definitions are required to aid in effectively and consistently managing our scarce funds.

Vertical infrastructure projects are presently defined by Section 8.57, subsection 5, paragraph c, *Code Supplement 1995*, as amended by the 1996 General Assembly:

> Moneys in the fund in a fiscal year shall be used as directed by the general assembly for vertical infrastructure projects. For the purposes of this subsection, "vertical infrastructure" includes only land acquisition and construction, major renovation and major repair of buildings, all appurtenant structures, utilities, site development, and recreational trails. "Vertical infrastructure" does not include routine, recurring maintenance or operational expenses or leasing of a building, appurtenant structure, or utility without a lease-purchase agreement. However, appropriations may be made for the fiscal years beginning July 1, 1997, and July 1, 1998, for the purpose of funding the completion of Part III of the Iowa Communication Network.

As the statute is presently written, all capital projects qualify as vertical infrastructure projects except projects for routine maintenance, operational expenses and leased office space. An attempt to prioritize projects by assignment of projects into listed categories is not yet possible due to the absence of the categories being defined. Section 8.3A, *Code of Iowa*, "Capital Project Planning and Budgeting - Governor's Duties," and Section 8.6(13), *Code of Iowa*, "Capital Project Budgeting Requests," likewise fail to define the basic categories used in classifying and summarizing capital project budget requests.

Research Summary

The National Association of State Budget Officers ("NASBO") published a 1992 survey covering capital budgeting issues. NASBO's first recommendation for good practices in capital budgeting is "to establish a clear definition of expenditures within the capital budget."

Financial World magazine[2] published a report ranking all states in infrastructure maintenance, as well as financial management and managing for results. While Iowa scored well in the other categories, it was far behind in its treatment of infrastructure. In the *Financial World* article[3], Iowa ranked sixth among states, receiving high marks in the areas of financial management and managing for results, but a less than desirable score for infrastructure maintenance. The authors note that Iowa "has racked up substantial deferred maintenance . . ."

States which scored high in infrastructure management were studied by the subcommittee for their processes, prioritization and definitions. The states of Utah[4], Colorado[5], South Dakota[6] and Virginia[7] were chose for further review due to their infrastructure management systems.

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[2] "State of the States 1995; Tick, Tick, Tick", *Financial World*, September 26, 1995, Katherine Barrett and Richard Greene.

[3] "State of the States 1995; Tick, Tick, Tick", *Financial World*, September 26, 1995, Katherine Barrett and Richard Greene.

[4] The State of Utah uses definitions that classify all capital projects into three categories.

> Capital Developments include 1) remodeling, site, utility projects costing $1 million or more; 2) new space costing more than $100,000; and 3) land acquisitions where an appropriation is requested.
> Capital Improvements are major alterations, repairs, or improvements of fixed capital assets costing less than $1 million dollars. State law requires that annual capital improvement funding equal at least 0.9 percent of the estimated replacement cost of all state facilities. The Utah State Building Board allocates capital improvement funding to priority projects.
> Capital Planning is the programming process conducted before a project is considered for further funding. It provides the basis for choosing among alternatives.

Utah also uses definitions for consistency in reporting capital requests, including construction costs, design costs, operations and maintenance costs, new program costs, and system replacement costs.

[5] The State of Colorado places the following definition of maintenance in its State Code.

> "Controlled Maintenance" means corrective repairs or replacements used for existing state owned (*sic*), general-funded buildings and other physical facilities, including, but not limited to, utilities and site development, which are suitable for retention and use for at least five years, and replacement and repair of the fixed equipment necessary for the operation of such facility, when such work is not funded in an agency's operating budget to be accomplished by the agency's physical plant staff.

[6]In 1995, The State of South Dakota established a standard set of definitions that apply across all state departments and institutions.

> Maintenance is the upkeep of existing property and equipment necessary to realize the originally anticipated useful life of the asset. maintenance does not prolong the design service life of the property or equipment nor does it add to the asset's value.
> Repair is work to restore damaged or worn out property or equipment to a normal operating condition. Operations must be fully restored without embellishment, and failure must trigger the repair.
> Operations is the routine, recurrent, periodic or scheduled work required to operate, renew, restore and preserve existing facilities. Operations also includes maintenance, repair, capital improvements and renovation projects smaller than $25,000.

Recommendations

1. The first step is to amend the present statute to provide a foundation upon which an infrastructure system can be constructed. Section 8.57, subsection 5(c) should be amended to read as follows:

> Moneys in the fund in a fiscal year shall be used for vertical infrastructure as determined by the Rebuild Iowa Infrastructure Fund Board. Moneys in the fund shall be used for (1) emergency repair and replacement, (2) deferred maintenance, (3) renovation, and (4) new construction of vertical infrastructure. Moneys in the fund will not be used for (1) repair and replacement, (2) operations, (3) routine maintenance, (4) preventative maintenance, (5) leasing of vertical infrastructure, (6) debt service for vertical infrastructure, or (7) the Iowa Communications Network.

A revised statute is necessary upon which to build a workable infrastructure system. Definitions are required in order to clarify the intent and allow consistency in the implementation of RIIF under the statute. In addition, the definitions provide the opportunity to establish a broad public standard for record keeping, data collection, and a common vocabulary for all public bodies in the State.

2. The following definitions should either: (1) be adopted in the statute, or (2) be adopted by rule by the RIIF Board.

VERTICAL INFRASTRUCTURE: Facilities that are predominately architectural in nature, have an element of aesthetics, and are not merely functional in nature. This specifically

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Renovation is the total or partial modifying and/or upgrading of an existing building's internal arrangement or other physical characteristics to higher standards of quality or efficiency so it can be effectively used for its designated purposes.
Capital Improvement Projects include construction or installation of new building, equipment or assets, or expansion of existing buildings that increases square footage, or addition of equipment, utilities or systems that didn't exist before.

[7] The Commonwealth of Virginia requires capital projects to fit into four categories.

Acquisition of any interest in land, including improvements of any kind located on the acquired land, except certain utility easements.
New Construction is a project characterized with a single undertaking involving construction of one or more facilities.
Improvements are defined as all work necessary to produce a complete and usable change to an existing facility or structure, including the associated architectural and other technical services, the fixed equipment installed and made part of the facility or structure, and site development.
Equipment is a tangible resource of a permanent or long-term nature used in an operation or activity.

includes buildings and related site improvements; the finishes, systems, equipment and property that serve the building and site; and statues and monuments.

***HORIZONTAL INFRASTRUCTURE*:** Facilities that are predominately functional in nature and located at ground level, under ground level, or parallel to and above ground level. This specifically includes transportation facilities, such as highways, bridges, streets, and bike trails; public works utility distribution systems, such as sewer, water and waste water pipes and water retention facilities such as dams; technological utility distribution systems, such as telecommunication devices, transmission systems and towers; and utilitarian buildings directly related to the above facilities, such as maintenance garages and water treatment plants.

***EMERGENCY REPAIR AND REPLACEMENT*:** Unscheduled work which, due to failure or impending failure, requires immediate action to restore the originally anticipated service life of a facility, finish, system, equipment or property.

***OPERATIONS*:** Routine, recurrent, periodic or scheduled work and materials required to operate a facility, its systems, equipment or property. Operations include all activities related to normal performance of a facility, including utilities, administration, janitorial staff, supplies, routine maintenance, preventive maintenance and repair and replacement of worn out elements.

- ***ROUTINE MAINTENANCE*:** The regular care and upkeep of facilities, finishes, systems, equipment and property necessary to realize the useful life of the asset. It does not extend the originally anticipated useful life of the asset, nor does it directly add to the value of the asset.

- ***PREVENTIVE MAINTENANCE*:** A proactive, planned program of regular and cyclical maintenance designed to prevent failures of facilities, finishes, systems, equipment and property and to maximize the originally anticipated useful life.

- ***REPAIR AND REPLACEMENT*:** Scheduled work, due to predicted or impending failure, to restore a damaged or worn out finish, system, equipment or property to a normal operating condition. Repair and replacement does not include improvements to the asset. Repair and replacement are curative actions, while maintenance is a preventive action.

***DEFERRED MAINTENANCE*:** The aggregation of unfunded routine maintenance and repair and replacement, but not preventive maintenance, which was not performed in a timely manner due to lack of available funding, lower priority or other recognized delaying factors. Deferred maintenance shall be defined as routine maintenance and repair and replacement included in the operations budget during at least two successive fiscal years, but not accomplished due to recognized delaying factors.

***NEW CONSTRUCTION*:** The construction of a new building and related site work meeting the definition of vertical infrastructure. Project costs for new construction shall include, but

not be limited to, land acquisition; building and site construction costs; finishes, systems and equipment for the building and site; professional services for predesign and design, environmental testing and surveys; and inspections related to the project.

RENOVATION: the total or partial modification of a vertical infrastructure's internal arrangement or other physical characteristics to higher standards of quality or efficiency so it can be used more effectively for its designated purposes. Renovation upgrades and extends the design service life of the facility and adds to the value of the asset.

3. The following categories of vertical infrastructure <u>should</u> be funded from RIIF:

   - Emergency repairs and replacements
   - Deferred maintenance
   - Renovation, and
   - New construction.

   The following <u>should not</u> be funded from RIIF:

   - Horizontal infrastructure (e.g., the DOT)
   - Operations, including routine and preventive maintenance, and repairs and replacements
   - Leasing of vertical infrastructure
   - Debt service for vertical infrastructure, and
   - Iowa Communications Network.

   As noted later in this report, operations must be adequately funded in each agency's annual budget.

ISSUE 2: RATIONAL DECISION-MAKING PROCESS

A **rational decision-making process** is required for identifying RIIF expenditures.

Current Status

The current method of directing funds for infrastructure lacks focus and is not based on centralized, data-driven, long-range strategic approach. Under the current method, the danger of popularity and politics overpowering legitimate priorities is significant. Strategic priorities must drive the system.

Research Summary

The State of Utah is considered an excellent example of what it takes for strong infrastructure management. Utah was rated highest by the article in *Financial World*.[8] Key conclusions from the authors of the article include:

1. The maintenance of public assets has historically had very little in the way of public constituency, and therefore needs to be protected and de-politicized as much as possible.

2. Good decision-making requires adequate information. It is important for states to understand the level of deferred maintenance, the further impact of deferring maintenance and of continued under-funding of infrastructure.

3. Long-term planning is vital to appropriately deal with State assets. Otherwise, current political decisions can too easily transfer infrastructure problems into the future.

4. While decentralization in dealing with infrastructure may be acceptable, there needs to be a high degree of central oversight and coordinated data collection so that decision makers have adequate information.

5. Prioritization is inevitable and essential due to scarce funds.

In the area of infrastructure, the State of Utah was one of only four states receiving an "A" rating in *Financial World*. Specifically noted was the process of utilization of a statewide board, the Utah State Building Board. This Board is comprised of eight members, with seven being private citizens appointed by the Governor, and the eighth being the Director of the Governor's Office of Planning and Budget, serving ex-officio. Staff assistance to the Board is provided by the Division of Facilities Construction and Management. The Board recommends priorities for present and future State building needs and prepares an annually-updated Five-Year Building Program that includes priority recommendations for Capital Development (new construction or major remodeling).

The Board also allocates appropriations for capital improvements to specific projects. Capital improvements include improvements to existing facilities. A computerized program is utilized to compile a list of agency priorities for improvement projects. The Board travels the State and makes on-site visits to agencies and institutions. After the Legislature appropriates funds for improvements, agency hearings are conducted, and a prioritized list is prepared by staff and the Board. Following the hearings, the Board takes action on the final list, and funds are allocated to projects on the basis of critical need.

Other powers and duties of the Board include review and approval of agency master plans, recommendations on necessary statutory changes, establishment of design criteria and planning

[8] Ibid.

and construction standards and procedures, preparation of an annual leased space report, and adoption of rules and regulations.

In *Iowa Infrastructure '95: A Report of Infrastructure Needs in the State of Iowa*[9], the authors recommend that the State of Iowa establish a Capital Asset Management Commission. This Commission would be a resource for agencies and entities responsible for infrastructure statewide. The proposed Commission would:

- Work with State agencies to develop facility audits for all classes of vertical infrastructure.
- Assist agencies in developing capital asset management programs.
- Collect and analyze facilities audit information and report on the condition of capital assets and renewal progress.
- Develop prioritization plans for addressing critical needs to protect deteriorating capital assets.
- Assist the Legislature and other agencies in the development of funding sources and funding mechanisms for consistent attention to capital renewal.
- Assist agencies in establishing maintenance programs designed to prevent accumulation of asset deterioration.
- Maintain a database of project costs for typical maintenance and construction activities.
- Assist infrastructure agencies in selecting appropriate delivery systems for projects.

The Iowa Department of Transportation is an example of an established infrastructure system. It has a citizens commission that develops and coordinates a comprehensive policy for the State of Iowa. Commission duties include, but are not limited to, identification of needs for transportation facilities and services, and identification of methods of improving transportation safety. The Commission has extensive authority in the process of allocating resources. The Commission consists of seven members, not more than four of whom may be from the same political party, appointed by the Governor for multi-year terms. Appointments are subject to confirmation by the Senate.

Recommendations

1. A commission to be called the Rebuild Iowa Infrastructure Board should be established under Section 8.57.5 of the *Code of Iowa*. The Board should consist of seven citizen members, some of whom have knowledge and expertise in facilities and the construction industry. Not more than four should be from the same political party. The Governor should appoint the members of the Rebuild Iowa Infrastructure Board in staggered six year terms, and the members should be subject to confirmation by the Senate.

[9] Ibid.

2. The *Code of Iowa* should be amended to provide necessary staff support to the Rebuild Iowa Infrastructure Board.

3. The monies in the Rebuild Iowa Infrastructure Fund(RIIF) should be used as directed and allocated by the Rebuild Iowa Infrastructure Board for the construction and maintenance of the vertical infrastructure of State agencies. "State agencies" is defined in Iowa Code Section 8.3A. To avoid undue political influence and to acknowledge the objective selection process, the Governor and the Legislature should be allowed only to veto projects on the approved project list prepared by the Board, and should not be permitted to add any projects not recommended by the Board.

4. The mission of the Rebuild Iowa Infrastructure Board should be to enhance the efficient management and protection of the investment of the State in vertical infrastructure. All State agencies should be required to assist and cooperate with the Board in its mission.

5. Duties of the Board should include:

   - Confer with State agencies and direct the management and development of the vertical infrastructure needs of the State,

   - Allocate the funds of RIIF. The Board should give preference in the following order:

     - Emergency repair and replacement
     - Deferred maintenance
     - Renovation
     - New construction

   - In allocating funds, the Board should place a high priority on the following criteria, in no order of preference:

     - Life safety and regulatory compliance
     - Accessibility for disabled persons
     - Historic preservation
     - Energy conservation

   - Develop a fair and equitable prioritization method based upon a broad view of the needs of the State. This should include, but not be limited to, guidelines, procedures, policies and priorities in pursuing a comprehensive, statewide strategic facilities plan. The Board may wish to subdivide the issue of deferred maintenance into categories of "deteriorating" and "non-deteriorating" in order to direct funds to the most critical needs.

- Coordinate the development of uniform criteria and definitions to promote best practices in facility management. This should include increasing the responsibility and accountability of State officials to maintain vertical infrastructure by requiring periodic facilities assessments to be submitted to the Board for review.

- Develop and maintain, in cooperation with all State agencies, a comprehensive, statewide five-year strategic facilities plan for maintenance, repair and replacement, renovation and new construction of vertical infrastructure. This plan should be updated annually and revised as necessary. State agencies should annually submit to the Board their goals and objectives regarding infrastructure maintenance and development.

- Review State agency proposals and their priorities for qualifying projects for funding under RIIF, and make policy decisions regarding the projects to be funded from the appropriated funds available.

- Cause staff to publish an annual list of prototypical replacement costs for the various types of State facilities based on annual national publications.

- Develop a data base system that provides information for the Board to carry out its mission. This includes, but is not limited to, a central data base of all State infrastructure assets and facility assessment information.

- Recommend any statutory changes necessary to ensure an effective, well-coordinated infrastructure program.

- Make, execute and effectuate agreements with any governmental agency or private party necessary to accomplish the purposes of this program.

- Apply for and accept gifts, grants, appropriations or contributions to the RIIF.

- Receive funds from the federal government for deposit into the RIIF, authorize disbursements, and ensure full participation by the State of Iowa in any federal program which relates to development of infrastructure.

- Adopt any necessary rules pursuant to Chapter 17A.

- Administer RIIF and direct disbursements from the Fund.

- RIIF funds recipients shall account to the Board for RIIF expenditures.

ISSUE 3: INDENTIFYING PROJECTS

An accurate and equitable method is required to **identify projects.**

Current Status

State departments are currently required to identify their capital budget needs for the succeeding five years, internally rank all such needs, and submit their priority list to the Department of Management. The Department of Management compiles all capital requests into the *Five-Year Capital Project Priority Plan,* which is then presented to the Governor and the Legislature.

Each Department maintains its own asset inventory, and no standardized, statewide system exists to direct how departments are to maintain their inventory list or how needs are to be identified. Since no central data base is maintained, questions cannot be easily answered as to:

- The total value and current replacement value of State assets,
- The age and condition of State assets and their major components,
- The square footage totals for all State buildings, or
- The history of spending on routine and preventive maintenance, repair and replacement and deferred maintenance.

An inventory is maintained by the Department of General Services for assets located on or near the State Capitol complex. General Services works closely with the Department of Corrections and the Department of Human Services on capital projects and has a basic understanding of their assets. Examples of other departments and boards that have their own capital asset inventory include the Department of Natural Resources, Department of Public Defense, Department of Public Safety, Board of Regents, the State Fair Board and the Department of Cultural Affairs. However, there is little coordination, commonality of definitions, or information practices among the Departments.

Research Summary

According to a 1992 survey[10], all states assign the responsibility of generating capital budget requests to their State agencies and departments.

[10] "Capital Budgeting in the States: Path to Success," 1992, published by the National Association of State Budget Officers.

Iowa Infrastructure '95[11] states that:

> "Many of the agencies and entities responsible for Iowa's infrastructure lack the basic skills and knowledge necessary to evaluate capital needs."
>
> "Frequently, the lack of planning and limited funds create maintenance backlogs and unattended facility deficiencies. These facilities deteriorate, resulting in deferred maintenance and a significant financial burden for corrective measures."

The same authors also commented on the quality of data received and the environment that exists surrounding capital requests:

> ...numbers tend to reflect what they (i.e., *State agencies*) think they could get in the way of dollars. They know they have needs, but are hoping for money. Much beyond the five-year projection, the estimates get soft. (State agencies) deal with what they think is political reality. The need is greater than the projections...

Recommendations

1. A data base containing a comprehensive, central inventory of all State vertical infrastructure assets should be established.

   The format of the data base should be simple to avoid conflict with established inventory systems currently used by Departments, if any, but participation in the data base should be mandatory. If necessary, compliance can be accomplished by the Department restating a summary of their existing data in the proper format. However, the Department should modify and adapt its practices to the definitions and methodology suggested by this Report.

2. A capital asset management program should be mandatorily established, including the use of facility audits to effectively assess the needs of the vertical infrastructure assets of the State. A facility audit is an essential assessment tool used to provide diagnostic information about the condition of a vertical infrastructure asset and its components. The implementation of the facility audit process should take into consideration:

   - Consistent level of detail to have a basis of comparison across all State vertical infrastructure facilities.
   - Recognition of staff expertise available to conduct the audit.
   - The cost of data collection and maintenance of the data base.

[11] "Iowa Infrastructure '95; A Report of Infrastructure Needs in the State of Iowa," by James E. Rowings and David J. Harmelink, Iowa State University Department of Civil and Construction Engineering.

- The need for a user guide and training of staff responsible for the facility audit.
- Structural aspects of a facility to audit.
- The frequency of performing the facility audit.
- The maintenance and use of the data collected.

3. A three-tiered assessment system should be devised, where the first and simplest level requires answers in a questionnaire format designed to be accomplished by a layperson. If necessary, a training manual or videotape can be used to explain the system. The intent of this level is to allow participation in the statewide program without incurring extensive, onerous costs of compliance. The second level is a sophisticated staff-level detail, such as the Regents institutions and Department of General Services already have in place. The third level is an expert professional level assessment, prepared on a project-by-project basis by professional architects or engineers. Each successive level represents a more detailed version than the one before it, but all are able to be meaningfully reduced back to the first level by summary for comparison purposes and inclusion in the central data base. Attachment F, page 50-F, is a suggested facilities audit program.

ISSUE 4: ASSIGNMENT OF PRIORITIES AND ALLOCATION OF SCARCE RESOURCES

An equitable method is needed to **assign priorities** to projects and **allocate scarce resources.**

Current Status

The process of assigning priorities to State agency requests for capital projects on a statewide basis exists in Section 8.6(14), paragraph a, *Code of Iowa*, which directs the Department of Management to provide:

> A detailed list of all proposed capital projects for all State agencies, which the Department of Management believes should be undertaken or continued for at least the next five years.

The statewide prioritization method is developed by staff in the Budget Division of the Department of Management and the Director of State Budgets. This method results in a list that is required to be submitted to the legislative Capital Projects Committee by November 1 of each year. A copy of the list is also supplied to the Governor. The Legislature and the Governor are not bound by the priorities assigned by the Department of Management, and may add or delete projects and change the amount attributable to a project.

Section 8.3A, subsection 2, paragraph a, *Code of Iowa* directs the Governor to:

> Develop criteria for the evaluation of proposed capital projects which shall include but not be limited to the following:
>
> 1. Fiscal impacts on costs and revenues,
> 2. Health and safety effects,
> 3. Community economic effects,
> 4. Environmental, aesthetic, and social effects,
> 5. Amount of disruption and inconveniences caused by the capital project,
> 6. Distributional effects,
> 7. Feasibility, including public support and project readiness,
> 8. Implications of deferring the project,
> 9. Amount of uncertainty and risks,
> 10. Effects on interjurisdictional relationships,
> 11. Advantages accruing from relationships to other capital project proposals,
> 12. Private sector contracting for construction, operation, or maintenance.

However, no formal written document is required to be published relative to this activity.

Research Summary

The criteria used by the Board of Regents in prioritizing their capital budget requests include the following, presented in random order:

- Linkage with strategic plan,
- Priority assigned to the project the preceding year,
- Planning had previously been funded,
- Consistency with the institutions' goals,
- Impact of operating costs, and
- Safety concerns.

The Department of Transportation uses an extensive computer model, perfected over a number of years, to prioritize projects and allocate dollars among projects. The DOT process strives to remove subjectivity from the determination of projects to be funded, due to the importance of demonstrating to all stakeholders that the Commission is not arbitrarily choosing projects. The states of Utah, Colorado, South Dakota, and Maryland also utilize priority methodologies.[12]

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[12] The State of Utah uses a formula with ten criteria factors with weighted values to calculate its *Capital Priority Score*. This priority score is used as a tool to identify needs but is not used to make the final determination of which projects are to be funded. The following are the ten criteria factors:

The authors of *Iowa Infrastructure '95*[13] state that:

> "The Legislature and the governor has (sic) responded with the development of an initial mechanism for providing a dedicated funding stream for State vertical infrastructure facilities. The funds are insufficient to meet the needs and it is likely that the additional needs created each year will outpace the growth of the fund. It is imperative that the funds available be directed at those areas with the most critical needs and those facilities in the greatest danger."

Recommendations

1. All vertical infrastructure projects to be funded by RIIF should be prioritized using the following order of preference, under the theory that present assets must be cared for first before new projects are taken on:

- Life Safety Issues
- Financial / Operational Efficiency
- Preservation of State Assets
- Facility Audit Supports Project
- Loss of Function
- Growth / Utilization
- Strategic State Priority
- Programming Completed
- Legal Liability / Mandate
- No Technological Alternative

The State of Colorado uses a priority method based on three rating factors. The scores are used to identify need and not to make final decisions on funding. The rating factors include:

- The agency's internally determined project priority number.
- Operational Criteria (Health/Safety = 1, Disrupt Operations = 2, and Deterioration = 3).
- Criticality Index (engineering based matrix).

South Dakota and Minnesota also employ priority rating methods, while Virginia and Maryland employ no such method.

[13]"Iowa Infrastructure '95; A Report of Infrastructure Needs in the State of Iowa," by James E. Rowings and David J. Harmelink, Iowa State University Department of Civil and Construction Engineering

- Emergency repair and replacement
- Deferred maintenance
- Renovation
- New construction

2. The prioritization process should highly value the following criteria as applied to the above order of preference:

   - Life safety and regulatory compliance
   - Accessibility for disabled persons
   - Historic preservation
   - Energy conservation

3. The prioritization methodology and the preservation and care of infrastructure assets should be placed into the mission and goal statements of the State.

4. As deferred maintenance accelerates asset decline. The Governor and the Legislature should assure that adequate resources are included in all departments' operating budgets to meet routine maintenance, preventive maintenance and repair and replacement needs. All vertical infrastructure assets should include a minimum of 1.5 percent of its current replacement value within its agency's annual operations budget as a commitment to annual routine and preventive maintenance. In addition, a reserve fund based on a minimum of 3.5 percent of current replacement value of the assets of the State should be created (over a period of years, if necessary) to provide funds for repair and replacement of finishes, systems, equipment and property over the design life of such assets.

5. At the time a new vertical infrastructure project is proposed to the Board for funding, a statement of projected operations cost, including routine maintenance, preventive maintenance, and repair and replacement, should be required, along with an identified and dedicated source of revenue to fund those costs. Alternatively, an interest-bearing escrow account or endowment may be established at the time of initial funding of the project, calculated on a net present value basis so that the principal and interest, adjusted to the anticipated years spent, will equal the minimum values indicated above over the life of the facility.

6. Preference should be given to funding the preservation of existing vertical infrastructure over the funding of new construction, unless such preservation is deemed disproportionately expensive. In any case, special preference should be shown for the preservation of designated properties of architectural or historic significance.

CONCLUSION

The Governor and the Legislature, by their leadership and the adoption of RIIF, have provided the State with a unique opportunity to address vertical infrastructure needs. The needs are critical. Were it not for the category of infrastructure management, Iowa would be a contender for the title of best managed State in the union. Most importantly, adopting and implementing the recommendations of this Report will enable the State's vertical infrastructure to be optimally managed for the benefit of all Iowans.

Attachment E

REBUILD IOWA INFRASTRUCTURE FUND(RIIF)
FISCAL YEAR 1996-1997

Capital Project	Total Amount	Project Classification by Type			
		Maintenance	New Construction	Technology	Other
Regents' Capital Requests	$51,000,000		$51,000,000 *		
ICN Part III	20,800,000			$20,800,000	
School Technology	15,000,000			$15,000,000	
Capitol Exterior Renovation	9,300,000	$9,300,000			
General Services: State Facilities Maintenance	6,500,000	$6,500,000			
Old Historical Building Renovation	5,400,000	$5,400,000			
State Fair Board	5,000,000	$5,000,000			
DED: Physical Infrastructure Financial Assistance	3,900,000				$3,900,000
Prison Construction Debt Service	3,179,500		$3,179,500		
Lucas Building -- Renovation	3,100,000	$3,100,000			
DNR: CCC & WPA Projects	3,000,000	$3,000,000			
Capitol Interior Renovation	2,800,000	$2,800,000			
DED: Physical Infrastructure Program	2,000,000				$2,000,000
Recreational Trails	1,000,000				$1,000,000
DHS: Training/Technology	818,000			$818,000	
DHS: X-PERT Computer System	790,000			$790,000	
Veterans Affairs Commission	585,373		$500,000	$85,373	
Armory Maintenance	567,000	$567,000			
Dubuque Museum	500,000		$500,000		
County Fairs	495,000	$495,000			
DPS: IOWA System Upgrade	300,000			$300,000	
DPS: AFIS Maintenance	222,155			$222,155	
DOC: ICN link to Clarinda Facility	150,000			$150,000	
Terrace Hill Projects	150,000	$150,000			
Lucas Building -- Tunnel	100,000	$100,000			
DGS: Infrastructure Staffing	50,000				$50,000
Total	$136,707,028	$36,412,000	$55,179,500	$38,165,528	$6,950,000

* : A small portion of this amount will address Fire/Safety issues and Deferred Maintenance.

Note that the Legislature also enhanced the RIIF fund for FY 1996-1997 with additional funding due to the added burdens of financing technology, debt financing and other needs. The statute creating RIIF should be amended to clarify its use exclusively for vertical infrastructure projects. Technology infrastructure, horizontal infrastructure, debt financing, and operations should not be a part of RIIF. The subcommittee recommends that each of these have a process of consideration and commitment of funding resources separate from RIIF.

Attachment F

A Facilities Audit

Introduction

What gets measured gets managed. This is an appropriate theme for understanding why a system of auditing the condition of our state vertical infrastructure facilities is needed. The needs in Iowa for funding to rebuild and maintain our vertical infrastructure have been documented through two studies by Iowa State University. This documented needs assessment has raised the awareness of the magnitude of the problem and provided some insight into the areas where the need is greatest. The legislature and Governor have responded with the development of an initial mechanism for providing a dedicated funding stream for state vertical infrastructure facilities. The funds are insufficient to meet the needs and it is likely that the additional needs created each year will outpace the growth in the fund. It is imperative that the funds available be directed to those areas with the most critical needs and those facilities in the greatest danger. The facilities audit provides a tool for making an assessment and supporting the annual decision process for funding of the vertical infrastructure needs.

The facilities audit is a tool which is used to measure the conditions of a set of facilities to provide diagnostic information about the condition of various system, support projects of deterioration of the facility under different maintenance conditions, and provide information for project future needs for rehabilitation and facility replacement. The facility audit should be developed at a common level of detail and should be simple and economical to apply. The goal is not to divert scarce resources from fixing problem, but rather to support decision making so that the investment the state has made in vertical facilities can be protected. A facilities audit is simply a tool of good physical facilities stewardship and runs parallel with good fiscal management and stewardship.

Framework

The attempt in this document is to provide a framework for the approach that the State should take in developing a facilities audit approach that will fit its needs for the vertical facilities. The framework includes several important elements. These are described below.

Level of Detail - A consistent level of detail is necessary to have a basis of comparison across the full range of state vertical infrastructure facilities. This level should be established with full recognition of the staff support available to conduct the audit and with deliberation and judgment as to the costs for data collection and maintenance on the database and the benefits and uses of the data in decision making and management of the maintenance, rehabilitation, and renovation to support program needs.

It is recommended that a level of detail be selected that can be applied by the person responsible for the facility within state government. The system should have a step-by-step guide for consistency and training should be provided so that a layperson can apply the process to facilities for which they have responsibility. Once this approach is being applied across all state facilities, it may be desirable to consider additional detail for future management needs.

Areas to Examine - The areas to examine should be delineated in broad terms related to the criticality of protecting the vertical infrastructure asset. The areas that are suggested include the following:

The Building Envelope
- Foundation
- Structural Elements
- Walls
- Glass and Doors
- Roof

Building Systems
- Electrical
- Mechanical
- Lighting
- Fire and Security
- Communications
- Vertical Transportation

Interior Finishes
- Wall Coverings and Pain
- Floor Coverings
- Cabinets and Furnishings

Life Safety issues should be addressed as most critical and could fall into several of the categories listed above. These issues should be noted separately in the facilities audit process so they can be prioritized annually.

Frequency

The facilities audit should be performed on all facilities on a periodic basis. It is recommended that each facility be placed on a schedule for a facility audit based on its primary functional category, age, and type of construction. Reports of audits should be made annually to RIIF Board for their use in establishing an annual program.

Implementation

The facility audit process should be developed in detail as soon as possible. It is likely that this will require an investment to identify the details of the process, work with the various state agencies for the types of facilities they have, develop a workable and economical approach and develop the forms, guidance documents, and database for the state system. This process would typically take about one year to implement.

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